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June Consumer Price Index: Further Progress, Still Far From The Destination

- The total CPI fell by 0.1 percent in June (down 0.056 percent unrounded); the core CPI rose by 0.1 percent (up 0.065 percent unrounded)
- On a year-over-year basis, the total CPI is up 3.0 percent and the core CPI is up 3.3 percent as of June

The total CPI fell by 0.1 percent in June, a bit softer than our forecast of no change, while the core CPI rose by 0.1 percent, matching our forecast. The consensus expected the total CPI to be up by 0.1 percent and the core CPI to be up by 0.2 percent. On an over-the-year basis, the total CPI is up 3.0 percent and the core CPI is up 3.3 percent, the latter being the smallest such increase since April 2021. Though our forecasts of both the total and core CPI were below the consensus forecasts, the unrounded changes were even softer than we had anticipated, the primary culprit being a much more pronounced moderation in rents, both primary and owners' equivalent, than our forecast anticipated. As a reminder, rents account for over forty percent of the core CPI, so the sharp slowdown in the pace of monthly increases had a powerful impact. Moreover, we noted in this week's *Economic Preview* that we expected seasonal adjustment would work to hold down the June increase in the core CPI, primarily in the travel services components, and this proved to be the case, while at the same time core goods prices excluding motor vehicles were a touch firmer than we had anticipated. The point here being that while the markets reacted most favorably to the June CPI data, our view is that the June data overstate the extent of progress being made on the inflation front, and come the fall seasonal adjustment will be much less friendly just as the over-the-year comparisons are becoming a bit tougher. In other words, the inflation data over the next few months could be more supportive of the "we need more evidence" argument being made by many FOMC members than of any arguments for beginning to cut the funds rate, though signs of a slowing pace of economic activity could easily change the calculus here. We have for some time anticipated funds rate cuts at the September and December FOMC meetings, and that remains the case.

The overall energy index fell by 2.0 percent in June, matching the decline seen in May. On a seasonally adjusted basis, gasoline prices fell by 3.8 percent, this on the heels of the 3.6 percent decline in May. At the same time, electricity prices fell by 0.7 percent in June, despite what had to have been a significant increase in demand triggered by much higher than normal temperatures across much of the U.S. June's decline continues a run of what have been oddly tame monthly changes in electricity rates. The overall food index rose by 0.2 percent in June, with prices for food consumed at home up 0.1 percent and prices for food consumed away from home up 0.4 percent, each matching our forecast. On an over-the-year basis, prices for food consumed at home were up 1.1 percent in June, the eighth straight month below 2.0 percent, and while the relief is welcome, it does nothing to mitigate the effects of the cumulative price increases seen over the past three-plus years.

Core goods prices were down by 0.1 percent in June, but lower prices for both used and new motor vehicles were a significant weight, particularly the 1.5 percent decline in prices for used vehicles. The BLS's index of core goods prices excluding used motor vehicles was actually up slightly in June, with prices for apparel, appliances, recreational goods, and televisions posting increases. Though higher shipping costs would be expected to put at least some upward pressure on prices for core consumer goods, a stronger U.S. dollar holding down prices of imported goods and flagging growth in consumer spending on goods are acting as counters, and it's hard to see much conviction in goods prices, either up or down, in the months ahead.

Core services prices rose by just 0.1 percent in June, the smallest monthly increase since September 2021 on an unrounded basis. As we anticipated, weaker than normal June prints on a not seasonally adjusted basis for lodging rates and air fares translated into sharp declines (down 2.0 percent and 5.0 percent, respectively) on a seasonally adjusted basis, though higher prices for vehicle rentals were at odds with our forecast. More significantly, in terms of the change in the core CPI, is that owners' equivalent rents and primary rents were each up just 0.3 percent in June, the smallest increases since September 2021. For some time, we and others have been waiting for softer rents to be captured in the CPI data, and while the June data may herald that, actual rents have shown signs of firming. To the extent this is the case, it will take a long, long time for that to be captured in the CPI data.

